

Asset owner conversations



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Topic: Get real about stewardship and really make a difference

Member participants:

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Agenda

- Stephen Miles (WTW) - four stewardship challenges to reach the climate-stewardship summit
- Adam Matthews (CoEPB) - case study: effective engagement with the mining industry

Four stewardship challenges to reach the climate-stewardship summit

By Stephen Miles, head of stewardship at WTW Investments

Stewardship has come a long way in the last five years and, in many ways, there's been significant positive progress. However, there are still some real challenges to tackle if we are to address systemic risks like climate change and biodiversity at a system level. We are trying to get to the top of the stewardship summit, but there are four main challenges in our way:

Four stewardship challenges



Resources

- Individually a single pension scheme feels quite small in relation to these challenges
- Even at industry level it's difficult to have enough resources and, very importantly, people with necessary skills dedicated to stewardship to address the breadth of these issues.

Teamwork

- Teamwork has improved a lot through recent collaborative initiatives, however overall industry action still needs to be more coordinated. There is still a lot of duplication between different groups, for example paying for the same data and separately engaging with the same companies
- If our actions were more coherent, we would probably have more capacity to specialise in specific subjects and more skills to determine when and how to intervene and use our stewardship.

Direction

- There is no path or map, and it is not always clear what the right engagement strategy is
- X-portfolios/exclusions do not always lead to the outcomes we want at a system level
- We need transition plans and responsible decommissioning too.

Storm ahead

- The investment world is getting more complicated
- There are questions about how to report on stewardship and in a way that resonates, while avoiding overclaiming
- There is also aggressive politization making it hard to navigate, particularly for asset managers stuck in the middle.

Case study: effective engagement with mining industry

By Adam Matthews, Chief Responsible Investment Officer, Church of England Pensions Board

Background

We see stewardship as integral to the way the fund oversees its assets and delivers returns over the longer term. The fund's Investment Committee and the Board recognise the importance of stewardship in terms of serving our members' interests, which include our ability to provide them a pension in the long term and the world to retire into that isn't negatively impacted by the way the pension return is generated. These two things together form our approach to investments.

This case study is focused on engagement with the mining sector, which is a particular challenge for us as we are invested in the sector and have been as a fund for many years. There are several complexities in the mining sector – negatively impacted local communities, disasters that lead to significant environmental impacts - and yet we must recognise the need for mining in terms of low carbon transition and the positive impact it has on development, jobs and growth in number of economies. Therefore, we had to look at our relationship with that sector and analyse the problems that exist. We wanted to make interventions that bring about genuine systemic change.

The problem

Part of the challenge we've seen in the sector over the years is that it's been quite incapable of dealing with its issues sector wide. There are individual companies that have been exemplars of good practise, but often they are undermined by other companies in the industry that aren't operating to the same standard. When a disaster happens because of bad practice, it completely undermines the social licence of the whole sector, not just the company that caused that incident. The sector itself doesn't seem to have the structure to deal with large, sector wide challenges which makes it very difficult for any responsible investor to be invested in mining, so we decided to intervene and try to make a change.

The focus of this case study is the issue of waste from mining and how it is handled and stored. The reality is that mining companies have been storing their waste as cheaply as possible over the years. Tailings dams are some of the largest engineered structures on the planet and are used to store by-products of mining operations. A lot of these structures have been created in an extremely cheap way

and have been collapsing at a concerning rate, causing huge environmental impacts and leading to significant deaths in local communities. This is an example of an industry's externality becoming reality.



The Brumadinho dam collapse in Brazil in January 2019 took the lives of 270 people. This disaster kickstarted our engagement project.

The process

As a fund we are a relatively small shareholder in this sector, so this is how we went about engineering a way to drive the necessary change and have an effective input:

- First, a week after the disaster we made a public call with a group of other investors (representing collectively about US\$1 trillion AUM) for a change in the mining sector and a different approach to how it deals with waste
- Some of the major mining companies instantly started to respond to this public message and it led to the formation of the Global Mining & Tailings Safety Initiative
- Following this, a group consisting of investors, industry representatives, leading experts in the field and engineers had meetings on monthly basis exploring how we, as investors, could understand the issue and drive change
- It was done with the support of the Swedish National Pension Funds' Ethics Council and UNPRI
- **The first phase** was to understand the problem in greater detail, beyond site specifics, ie the state of the tailings dams across the whole of the industry. At this point the group of investors involved had grown to US\$10-15 trillion AUM
- It became evident quite quickly that investors didn't have much knowledge on who operated which tailings dam and to what standard. There was no formal disclosure around the dams and underlined that investors were not aware of the level and probability of the risk involved
- **The second phase** was to make a disclosure request. We gave mining companies 45 days to respond to 19 questions and their disclosures had to be verified by the chair and CEO and that disclosure had to be on the company website
- The industry responded well, and we had a huge percentage of the market by capitalisation that disclosed this information. A global database was created to capture these disclosures and for the first time we had insight into where listed mining companies had dams, the standards they were operating to and controls that they had in place. This database is now available for free and includes satellite images of the individual tailings dams and companies' data disclosures

- This was a turning point where the industry realised that, on the back of this horrific disaster, the scales had changed and that investors were now driving this agenda and that they needed to be responsive
- Based on the disclosures we then went into the process of **developing a new industry standard**. It was led by an independent chair Professor Bruno Oberle and an independent panel and the standard was co-convened by ICMM, UN Environment and UNPRI. This is a comprehensive standard that companies are now operating to. All major mining companies are committed to implement it and the first disclosures and audits of that standard will be made next year
- It was not an easy process, with several parties threatening to walk away from this project, but investors persisted and eventually we arrived at the development of the standard. Investors have been very clear that they expect companies to adopt the standard and we are now working to create a Global Tailings Institute (GTI), which the UN and PRI are looking to bring into existence by the end of this year. The GTI will oversee the independent audit of these company's application of the standard and ensure its future evolution.

Outcome

- At the end of this process, we have an independent multi-stakeholder body overseeing an independent standard with associated disclosures. This provides investors with an independent assurance that, at site level, companies are operating to these standards. Our hope is that if we get this process right on tailings then it has the potential to be extrapolated into other issues
- We are working very closely with the banking and insurance sector now to ensure that the finance sector overall is aligned to implement the standard and we use stewardship tools to reinforce that message too. As an investor, we transparently published a statement on our website that if a mining company is not committed to implementing this standard, we are going to vote against the Chair of this company based on the fact that this is systemic risk to the company's business and to us as an investor in the company
- We are aware that we are only dealing with the listed sector in these interventions, so we are now making efforts to work with countries to see if they would implement the standard in their national regulations
- There are other issues relating to mining sector, eg its relationship with First Nations people and disasters like Juukan Gorge in Australia where a 46,000-year-old heritage site was destroyed. This really highlights the fact that in many cases even if there is a good level of disclosure, they do not always reflect what's happening at site level. This is an example of another issue where clearly there isn't a practise standard and sector-wide change is needed
- This has led to the formation of the Mining 2030 initiative, which considers eight systemic issues faced by the mining sector currently. Addressing these will be deeply challenging for the sector, but it's an enormous opportunity to get to the position where investors can remain invested in the sector with confidence. This is the opportunity of mutual benefit.

Discussion

- *How easy was it to engage banking and insurance with this issue?*

They were equally challenged by the Brumadinho disaster and, in many ways, they had a closer line of sight on the companies and the potential risk - particularly insurers. They recognised that something had to fundamentally change and had some initial thoughts as to what that change could look like. When we approached them with our plans, they felt that actually we had the momentum going so they were willing to align and support the development of the standard and setting up the GTI. Once it is up and running, we aim for an alignment between insurers, banks and investors to expect mining companies to commit to the standard, implement it and make data disclosures to the GTI. This is the first example of that sort of alignment on an issue, but potentially this is a model that could be replicated more broadly to cover other issues.

- *Was there any push back from owners of the assets?*

There has been some opposition in different phases. There was initial opposition from within the industry. For some it was difficult to recognise there was a need for a different kind of response and some companies threatened to walk away. There's also been opposition from some of the NGO community, where they feel that the standard didn't go as far as it needed to, in terms of banning tailings dams, particularly upstream tailings dams. However, while upstream tailing dams haven't been banned, it is going to be very hard to build them now and, in most cases, insurers and banks will not be willing to support their construction.

- *Could your learnings and this model be used to identify where long-term investors can work with other industries to develop improvements that in the long-term benefit all stakeholders?*

The fact that it was a collaborative action from a group of asset owners (AOs), with a significant AUM, meant we had a significant voice to establish an AO agenda from the beginning. These projects require a really driven approach where everyone is clear that the agenda is to achieve a reform and that it is not usual day-to-day engagement. Now three years down the line on this project, the challenge is to maintain the momentum and make sure there is a continued focus to ensure the problem is fixed.

- *What were the key points that were crucial to the success of this project?*
 - AO led, large AUM, focus on the issue, engaging with the issue not the company, transparency, ensuring there was a real momentum with month-on-month meetings, regular updates etc.
 - Making disclosures public which made this part of the public-accountability architecture for tailings dams
 - Being clear that our aim was not to do the industry down, but instead we were coming from the practical sense of wanting to help the companies and the sector to address a problem even if it was going to be uncomfortable and building trust through the process.
- *How can Thinking Ahead Institute help mobilise asset owners to act on tackling other existing externalities, such as climate change, more effectively?*

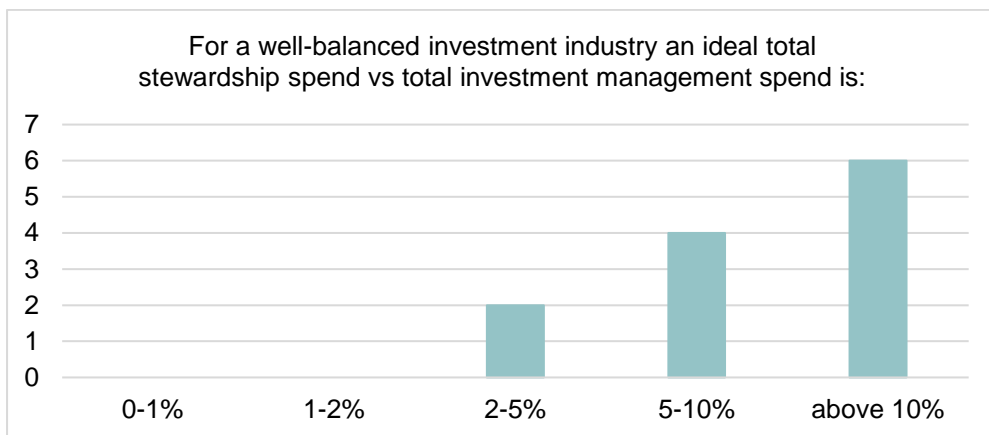
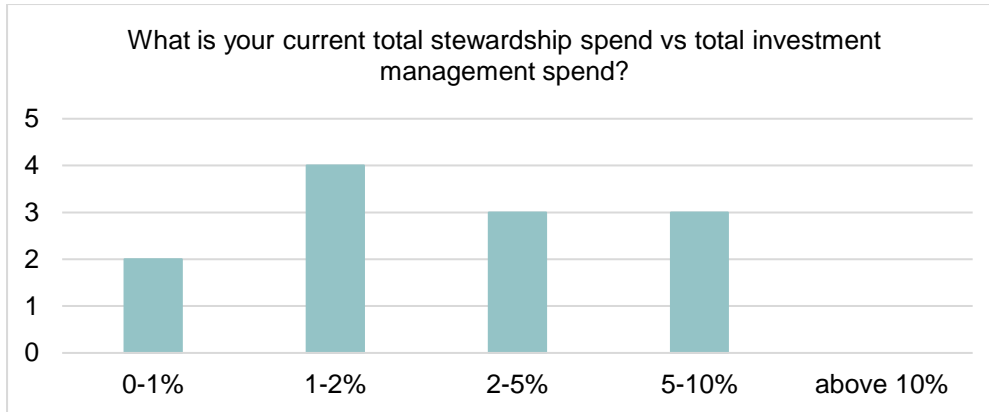
We do have a programme on climate change and there is a set of systemic interventions that we're working on with other AOs. These interventions range from creating data tools, to developing standards and investor frameworks. There is a whole set of interventions we are working on that are engineered to drive the level of change that's needed in the system.

Considering that there is a raft of systemic challenges, AOs do need to coordinate their efforts more effectively. We can recognise systemic challenges, but we can't engage and drive change in all of them because we don't have that capacity. However, with more coordinated action we could do more. A large group of AOs potentially owning a set of challenges together make it significant and more able to get to the next stage of the levels of intervention required across these issues.

Appendix

Polling results

12 participants in the AOconVO conversations on stewardship responded to the two survey questions below. The results indicate general agreement that the total stewardship spend vs total investment management spend needs to increase to ensure a well-balanced investment industry.



About the Thinking Ahead Institute

The [Thinking Ahead Institute](#) is a global not-for-profit member organisation whose aim is to influence change in the investment world for the benefit of savers. The Institute's members comprise asset owners, investment managers and other groups that are motivated to influence the industry for the good of savers worldwide. It has over 55 members with combined responsibility for over US\$16 trillion and is an outgrowth of WTW Investments' Thinking Ahead Group.